



Department for Levelling Up,
Housing & Communities

The Rt Hon Michael Gove MP
*Secretary of State for Levelling up Housing &
Communities and Minister for Intergovernmental
Relations*
2 Marsham Street
London
SW1P 4DF

Nikhil Rathi
Chief Executive
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

30 January 2023

Dear Nikhil,

Response to the Financial Conduct Authority's (FCA) report on the buildings insurance market for multiple-occupancy residential buildings

I would like to thank you and the Competition and Markets Authority (CMA) again for your report, dated 21 September 2022, and your continued work on this matter. The report confirmed my concerns regarding large buildings insurance premium increases in multi-occupancy residential buildings, evidence of weak competition in the market and unacceptable issues faced by leaseholders around the transparency of their insurance costs. I am also concerned about the lack of regulatory protections for leaseholders under FCA rules. Ensuring that buildings insurance is widely available, is affordable and offers fair value to leaseholders remains one of my top priorities.

I am encouraged that the FCA are intending to consult on regulatory changes but hope this can be an accelerated process given the significant engagement already taken on these issues. Leaseholders require better regulatory protection urgently to ensure that they are not taken advantage of. I request that you present your implementation plan for reforms by summer 2023. I welcome the work you are doing to assess unusually high broker commissions and understand you will publish a review into brokers charging the highest commissions by March 2023. Following this review I request that you meet the Building Safety Minister to confirm what actions you will take and I would also like an update on this by summer 2023.

I am pleased to see insurers and brokers progressing with your recommendation to implement an industry-led scheme that will lower the highest premiums for buildings with significant fire safety issues. While I understand the scheme is progressing to plan, I ask that you continue pressing industry to deliver this scheme as fast as possible and expect it to be implemented before summer 2023 to provide the urgent assistance that many leaseholders in affected buildings need. I also ask that you do whatever you can to press insurance brokers to reduce their remuneration fees to further bring down costs for leaseholders in buildings with fire safety issues.

I also understand the ABI and British Insurance Brokers Association (BIBA) are committed to delivering a new code for fire safety risk information to improve data collection, following your concerns with the quality of data provision in the insurance sector. I share these data concerns and as set out in your report, I ask that you ensure the code is delivered by end of February 2023 and that you continue to oversee and report to me on how the code can be used to monitor the sector.

While it is clear that there is still urgent work to be done by the FCA and by industry, I am clear that government too needs to act. Your report identifies the practice of insurance firms sharing commissions and other payments with property managing agents and freeholders, with such payments making up at least 30% of the total premiums paid by leaseholders for their buildings

insurance. The report also makes clear that there is a lack of transparency and access to relevant information faced by leaseholders, alongside material concerns around the potential for hidden insurance charges which has caused considerable distress to leaseholders.

I will take action to ban managing agents, landlords and freeholders from taking commissions and other payments when they take out buildings insurance, replacing such payments with more transparent fees. I will press insurance firms, managing agents, landlords and freeholders to change their practices as a matter of priority. I will also arm leaseholders with more information to enable them to better scrutinise their insurance costs, while also ensuring that leaseholders are not subject to unjustified legal costs and that they can claim their legal costs back from their landlord. These steps will ensure leaseholder insurance costs are fairer, more transparent and will rebalance the legal costs regime to give leaseholders greater confidence to challenge their costs, supporting fair value for the leaseholder. My officials will continue to update you as this work progresses.

Ensuring that all actors in the insurance distribution chain offer fair value to leaseholders is paramount to enhancing the impact of any legislative measures. We must continue to work together, and with industry, to implement the recommendations contained in the report as a top priority.

I am copying this letter to the Chief Executive of the CMA and the Economic Secretary to the Treasury.

With every good wish,

A handwritten signature in black ink that reads "Michael Gove". The signature is written in a cursive style with a large initial 'M'.

Rt Hon Michael Gove MP

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and Minister for Intergovernmental Relations